

REPORT ON EXAMINATION
OF THE
NATIONAL REINSURANCE CORPORATION
AS OF
DECEMBER 31, 2005

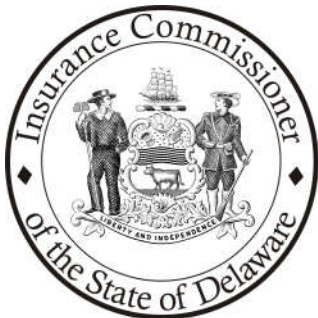
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2005 of the

NATIONAL REINSURANCE CORPORATION

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Antoinette Handy*

DATE: 8 JUNE 2007



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 8TH DAY OF JUNE 2007.

Matthew Denn

Insurance Commissioner

REPORT ON EXAMINATION
OF THE
NATIONAL REINSURANCE CORPORATION
AS OF
December 31, 2005

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", is written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 8TH Day of JUNE 2007.

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SALUTATION

June 11, 2007

Honorable Mike Geelsin
Chairman, Financial Condition (E)
Committee NAIC
State Corporation Commission
Texas Department of Insurance
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Honorable Matthew P. Denn
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Delaware Department of Insurance
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Arkansas Insurance Department
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Secretary, Western Zone (IV) NAIC
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3110 State Office Building
Salt Lake City, Utah

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 06.004, dated January 26, 2006, an examination has been made of the affairs, financial condition and management of the

NATIONAL REINSURANCE CORPORATION

hereinafter referred to as "Company" or "NRC" and incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington, Delaware, 19801. The examination was conducted at the main administrative office of the Company, located at 695 East Main Street, Stamford, CT, 06901-2350.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2002. This examination covers the period since that date through December 31, 2005, and consisted of a general review of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners ("NAIC") and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. In accordance with the aforementioned Handbook, the consulting firm of INS Services, Inc. performed an information systems review.

In addition to items hereinafter incorporated as part of this report, the following topics were reviewed and made part of the work papers of this examination.

Fidelity Bonds and Other Insurance
Statutory Deposits
Legal Actions Pending Settlement
All Asset & Liability Items Not Mentioned
Subsequent Events

HISTORY

The Company was originally incorporated in 1806 under the laws of the State of New York as The Eagle Fire Insurance Company of New York. In 1963, the Niagara Fire Insurance Company acquired all of the outstanding capital stock of the company. In 1966, The Continental Insurance Company of New York (“*Continental*”) purchased the Company.

In 1977, the Company domesticated to Delaware through a merger with the Fidelity and Casualty Company, a corporation formed in 1973 that remained inactive until 1977. On August 31, 1977, the Company was activated in order to change the official name to National Reinsurance Corporation (“*NRC*”). In 1980, administrative operations were moved from New York, New York to Stamford, Connecticut.

During December 1984, Continental sold all of the outstanding capital stock to Lincoln National Corporation (“*Lincoln*”), Ft. Wayne, Indiana.

On April 30, 1990, National Re Corporation (“*NRE*”) purchased the Company. NRE is a Delaware holding company specifically formed to acquire the Company from Lincoln. In January 1992, NRE became a publicly traded company on the New York Stock Exchange when it issued and completed an initial public offering of its stock under the ticker symbol “NRE”.

On October 3, 1996, General Re Corporation (“*GRN*”), a Delaware holding company, acquired all of the outstanding shares of NRE. On December 21, 1998, after all necessary regulatory approvals were received; GRN and Berkshire Hathaway Inc. (“*Berkshire*”) executed a Merger Agreement and Plan of Merger, thus making NRC a wholly-owned subsidiary of Berkshire.

CAPITALIZATION

The Company's Certification of Incorporation provides that it is authorized to issue 50,000 shares of common capital stock having a par value of \$100 per share of which all authorized shares are issued and outstanding and owned by National Re Corporation. The Company has no preferred stock outstanding.

Dividends to Stockholder

During the examination period, ordinary dividends of \$98,000,000 were paid to the Company's immediate parent, National Re Corporation. The dividend distributions occurred as follows:

<u>Year</u>	<u>Amount</u>
2003	\$11,000,000
2004	15,000,000
2005	<u>72,000,000</u>
Total	<u>\$98,000,000</u>

In June 2006, an ordinary dividend of \$ 38,000,000 was also paid to the parent company.

Following is a reconciliation of capital and surplus for the period under examination:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Surplus as regards policyholders, December 31, prior year	<u>\$655,756,063</u>	<u>\$694,360,471</u>	<u>\$722,092,484</u>
Net Income	53,254,705	42,898,666	9,514,401
Change in net unrealized capital gains (losses)	927,174	(2,422,260)	623,400
Change in net unrealized foreign exchange gain (loss)	258,106	(980,170)	(1,591)
Change in net deferred income tax	955,177	(11,592,688)	2,069,492
Change in non-admitted assets	(488,064)	9,273,438	(869,590)
Change in provision for reinsurance	(5,302,690)	5,555,027	7,200,284
Dividends to stockholders	<u>(11,000,000)</u>	<u>(15,000,000)</u>	<u>(72,000,000)</u>
Change in surplus as regards policyholders, current year	<u>\$38,604,408</u>	<u>\$27,732,013</u>	<u>\$(53,463,604)</u>
Surplus as regards policyholders, current year	<u>\$694,360,471</u>	<u>\$722,092,484</u>	<u>\$668,628,880</u>

MANAGEMENT AND CONTROL

Board of Directors

Pursuant to the General Corporation Laws of the State of Delaware as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers are exercised by or under the direction of the Board of Directors. The bylaws provide that the number of directors shall be established by the Board of Directors or by action of the stockholder and shall consist of not less than seven (7) members. Directors are elected annually and serve until a successor is elected and qualified. Interim vacancies may be filled by vote of the directors then in office which may be less than a quorum. A majority of the Board of Directors but not less than five (5) members shall constitute a quorum for the transaction of business.

A meeting of the Board of Directors shall be held within sixty (60) days after each annual election of directors for the purpose of organization, election of officers and the transaction of such other business. The Board of Directors may provide for the holding of regular meetings and the Chairman of the Board, the President or any two (2) directors, may call special meetings.

Members of the Board of Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2005 were as follows:

Director

Joseph P. Brandon

Principal Business Affiliation

Chairman and Chief Executive Officer
General Reinsurance Corporation

Leslie J. Davis

Vice President and Assistant General Counsel
General Reinsurance Corporation

William G. Gasdaska, Jr.

Senior Vice President, Chief Financial Officer and
Treasurer
General Reinsurance Corporation

John D. Hickey

Executive Vice President
General Reinsurance Corporation

Franklin Montross IV	President and Chief Operations Officer General Reinsurance Corporation
Scott R. Ostericher*	Second Vice President and Assistant General Counsel General Reinsurance Corporation
Damon N. Vocke	Vice President, Secretary and General Counsel General Reinsurance Corporation

* Resigned April 27, 2006 and was replaced by Adam D. Roberts

Committees of the Board of Directors

The Board of Directors appointed the following members to the Compensation Committee that served as of December 31, 2005:

Joseph P. Brandon
Franklin Montross, IV

The Company had indicated in each of its Annual Statements that a complete permanent record of the proceedings of subordinate committees is kept. However, there were no recorded minutes of the Compensation Committee in the years 2004 and 2005 and although the committee meeting minutes for the year 2003 indicates that a report was made for the compensation of officers, the report was not attainable.

It is recommended that the Company reply to the Annual Statement General Interrogatories in an accurate manner concerning the maintenance of recorded minutes and a written account or report of the discussions that is reflected in the minutes of the committee members' meetings should be retained.

Officers

The bylaws of the Company provide that the Officers of the Company shall consist of a Chairman of the Board, a President, a Treasurer and a Secretary and such other offices with titles as shall from time to time be set by resolution of the Board of Directors. As of December 31, 2005, the Company's principal officers and their respective titles were as follows:

<u>Name</u>	<u>Title</u>
Joseph P. Brandon	Chairman and Chief Executive Officer
Franklin Montross, IV	President and Chief Underwriting Officer
Damon N. Vocke	Vice President, Secretary and General Counsel
William G. Gasdaska, Jr.	Treasurer

Notification of Change of Directors and Officers

There were four (4) changes, both new appointments or elections and resignations of Directors who had not been reported to the Delaware Insurance Commissioner during the period of January 1, 2003 to December 31, 2005 and another notification was not sent on a prompt basis.

“18 Del. C. § 4919-Notice of change of directors or officers,” states;

“Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers.”

It is recommended that the Company comply with 18 Del. C. § 4919, regarding the notification and changes in officers and directors.

Conflict of Interest Policy

The immediate parent company, General Re Corporation, maintains a formal written Policy Statement on Conflict of Interest procedures for its subsidiaries that includes the Company of which conflict of interest compliance questionnaires are required to be distributed to, and executed by, officers, directors and employees on an annual basis.

The Company complied with its conflict of interest procedures for the year-ending periods of 2003 and 2005; however, the review and execution of such questionnaire forms were not implemented in the year 2004.

It is recommended that the Company consistently comply with its Policy Statement on Conflict of Interest procedures by verifying that its officers and directors review and execute the questionnaires on an annual basis.

Corporate Records

During the period of January 1, 2003 to December 31, 2005, all actions taken by the Board of Directors were done by unanimous written consent in lieu of holding Board meetings.

Investment Management Agreement

The Investment Management Agreement including the Investment Policy and Guidelines that was entered into with General Re-New England Asset Management, Inc., dated June 1, 2003, was first approved at the June 29, 2004 Board meeting, being over a year from the effective date.

Thereby, the investment management agreement was not approved in a timely manner.

It is recommended that the Company should exercise care by assuring that, when the Board's approval of agreements is required or otherwise provided, such approval is given in a timely manner.

HOLDING COMPANY SYSTEM AND AFFILIATED TRANSACTIONS

The Company is a member of a holding company system and on April 30, 1990 National Re Corporation, a Delaware holding company, was formed to specifically acquire NRC from Lincoln National Corporation and as a result, National Re Corporation became the immediate parent of NRC. On October 3, 1996, NRC became an indirect wholly-owned subsidiary of General Re Corporation, a Delaware holding company.

Berkshire Hathaway Inc., a Delaware domiciled holding company, became the ultimate parent and controlling entity of the entire group of companies on December 21, 1998 as a result of a merger with General Re Corporation. Berkshire Hathaway Inc. owns diverse companies engaged in various business activities worldwide.

The following organizational chart reflects the identities and interrelationships between the members of the “Gen Re Group” of companies that are part of the holding company system as of December 31, 2005:

**GENERAL RE CORPORATION
HOLDING COMPANY CHART
(as of 12/31/2005)**

<u>Name</u>	Jurisdiction	% Owned
Berkshire Hathaway Inc.	Delaware	N/A
General Re Corporation	Delaware	100
General Reinsurance Corporation	Delaware	100
Elm Street Corporation	Delaware	100
General Star Indemnity Company	Connecticut	100
General Star International Indemnity Ltd.	UK	100
General Star National Insurance Company	Ohio	100
General Star Management Company	Delaware	100
Genesis Underwriting Management Company	Delaware	100
Cologne Services Corporation	Delaware	100
Genesis Professional Liability Managers, Inc.	Ohio	100
Broker Markets Agency, Inc.	Connecticut	100
Insurance Management Services, Inc.	Connecticut	100
Genesis Insurance Company	Connecticut	100
Genesis Indemnity Insurance Company	North Dakota	100
GRC Realty Corporation	Connecticut	100
General Re Holdings Limited	UK	100
Reinsurance Underwriting Services Limited	UK	100
Gen Re Services UK Limited	UK	100
General Reinsurance UK Limited	UK	100
Gen Re Investments UK Limited	UK	100
GeneralCologne Re Management Ltd	Australia	50
General & Cologne Re Brasil Ltda.	Brazil	50

(3)

(5)

National Reinsurance Corporation

General Reinsurance Australia Ltd	Australia	100
General Re Compania de Reaseguros, S.A.	Uruguay	100
Mandataria General Re, S.A.	Argentina	100
(1)		
General & Cologne Re (Sur) Compañia de Reaseguros S.A.	Argentina	100
(1)		
Kölnische Rückversicherungs-Gesellschaft AG	Germany	91.2 (4)
GRD Corporation	Delaware	100
Kölnische Rückversicherungs-Gesellschaft AG	Germany	91.2 (4)
Cologne Holding Company of America	Connecticut	100
Cologne Re Managers Corporation	Delaware	100
Cologne Reinsurance Company of America	Connecticut	100
GeneralCologne Life Re (Barbados) Ltd.	Barbados	100
General & Cologne Investments LLC	Delaware	100
General Re Life Corporation	Connecticut	100
(6)		
Cologne Life Underwriting Management Company	Connecticut	100
John Hewitt and Associates	Maine	100
Professional Life Underwriting Solutions, Inc.	Connecticut	100
Idealife Insurance Company	Connecticut	100
GCL Strategic Investments, Inc.	Connecticut	100
Europa Rückversicherung Aktiengesellschaft	Germany	100
Europa Re (Dublin) Limited	Ireland	100
Kölnische Versicherungs-Beratungs- und Service GmbH	Germany	100
Faraday Reinsurance Co. Limited	UK	100
Cologne Reinsurance Company (Dublin) Ltd.	Ireland	100
(1)		
Cologne Reinsurance Finance Holdings B.V.	Netherlands	100
GeneralCologne Re (Bermuda) Ltd.	Bermuda	100
General & Cologne Re (Barbados) Ltd.	Barbados	75
(2)		
Gen Re México, S.A.	Mexico	100
Gen Re Warsaw Sp. z.o.o.	Poland	100
General Reinsurance Africa Ltd.	South Africa	100
(1)		
GeneralCologne Re Management Ltd	Australia	50
(3)		
General & Cologne Re Brasil Ltda.	Brazil	50
(5)		

National Reinsurance Corporation

General Reinsurance Life Australia Ltd. (1)	Australia	100
SIA Gen Re Riga	Latvia	100
GeneralCologne Re Ibérica Corredores de Reaseguros S.A.	Spain	100
General Reinsurance Life UK Limited (1)	UK	100
Cologne Re Consultants Ltd.	Hong Kong	100
Insiders Technologies GmbH (8)	Germany	86
General Reinsurance Scandinavia A/S	Denmark	100
Universal Risk Partners S.à.r.l.	Luxembourg	100
GeneralCologne Re Capital Fund Managers (Ireland) Limited (1)	Ireland	100
GeneralCologne Re Beirut s.a.l. (Off-Shore Company) (1)	Lebanon	100
Gen Re Capital GmbH	Germany	100
Der Gen Re Rehabilitations-Dienst GmbH	Germany	100
General Re Strategic Solutions, Inc.	Delaware	100
National Re Corporation	Delaware	100
National Reinsurance Corporation	Delaware	100
Fairfield Insurance Company	Connecticut	100
Global Resolution, Inc.	New Jersey	100
Red Elm, LLC	Delaware	100
GRCBA, LLC	Delaware	100
North Star Reinsurance Corporation	Delaware	100
General Re-New England Asset Management, Inc.	Delaware	100
North Star Syndicate, Ltd.	Delaware	100
United States Aviation Underwriters, Inc.	New York	100
Canadian Aviation Insurance Managers Ltd.	Canada	100
Airsurance Limitee	Quebec	100
General Re Services Corporation	Delaware	100
Gen Re Intermediaries Corporation	New York	100
Genplus Managers, Inc.	Delaware	100
Faraday Holdings Limited	UK	100
Faraday Group Services Limited	UK	100
Faraday Underwriting Limited	UK	100

National Reinsurance Corporation

Faraday Insurance Services Limited	UK	100
Faraday Capital Limited	UK	100
GRD Holdings Corporation	Delaware	100
GRD Global, Inc.	Delaware	100
Gen Re Securities Holdings LLC	Delaware	100
General Re Financial Products Corporation	Delaware	100
General Re Financial Products (Canada) Limited	Ontario	100
Gen Re Securities	UK	100
General Re Investment Holdings Corporation	Delaware	100
General Re Funding Corporation	Delaware	100
General Re Corporate Finance, Inc.	Delaware	100
Gen Re Asset Finance, Inc.	Delaware	100
GenRe South Ridge Partners L.P.	Delaware	100
GenRe Park Holdings LLC	Delaware	100
GenRe Gisbourne LLC	Delaware	100
GenRe Medallion LLC	Delaware	100
General Re Asset Investments (I), Inc.	Delaware	100
Ardent Risk Services, Inc.	Delaware	100

(1) Percentages include any qualifying shares.

(2) GeneralCologne Re (Bermuda) Ltd. (Bermuda) owns 75% and General Re Life Corporation (Connecticut) owns 25% of General & Cologne Re (Barbados) Ltd. (Barbados)

(3) General Reinsurance Corporation and Kölnische Rückversicherungs-Gesellschaft AG each own 50% of GeneralCologne Re Management Ltd

(4) On December 22, 2005, the GRN-SARL was dissolved under the laws of Luxemburg; as a result of the dissolution of the GRN-SARL, GRD Corporation received 6,174,369 shares of Kölnische Rückversicherungs-Gesellschaft AG and General Reinsurance Corporation received 6,149,721 shares of Kölnische Rückversicherungs-Gesellschaft AG. In addition to the shares received as a result of the dissolution, GRC already owned 506,653 shares and GRD Corporation owned 6,259,095 shares. As a result of the SARL dissolution and the existing shares, the total shareholdings for GRC are 6,656,374 shares; the total shareholdings for GRD Corporation are 12,433,464 shares. The Corporation's consolidated interest in KR is 91.2%.

(5) General Reinsurance Corporation and Kölnische Rückversicherungs-Gesellschaft AG each own 50% of General & Cologne Re Brasil Ltda.

(6) Kölnische Rückversicherungs-Gesellschaft AG holds a 51% controlling interest and Cologne Re Managers Corporation holds a 49% non-controlling interest of General Re Life Corporation.

(7) Owned 75% by GenRe Medallion LLC and 25% by General Re Asset Holdings, Inc.

(8) Kölnische Rückversicherungs-Gesellschaft AG owns 86% and 8 private individuals (non-GCR employees) own 14%. (Indentation Shows Ownership)

General Reinsurance Corporation (GRC), an upstream affiliate, filed holding company registration statements on behalf of NRC for all years under examination that were in compliance with the requirements of Delaware Regulation 1801.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is licensed in all states, the District of Columbia, Puerto Rico and Canada.

Plan of Operation

The Company operates as a professional reinsurer, primarily engaged in writing property and casualty business from insurance companies domiciled in the United States and selected international markets, however, beginning in 1997, all new and renewal business was transferred to General Reinsurance Corporation.

The Company is currently inactive with no direct business being written.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements with the exception of 2005, which was verified during the current examination, and shows the growth of the company since the last examination as of December 31, 2002.

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Gross Premiums Written *</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>
2005	\$ 868,549,126	\$ 668,628,880	\$ (4,976,590)	\$ (195,068,906)	\$ 9,514,401
2004	1,065,840,451	722,092,484	(14,064,535)	(14,465,384)	42,898,666
2003	1,099,054,419	694,360,471	5,413,682	8,952,473	53,254,705
2002	1,134,824,109	655,756,063	(4,133,644)	(1,667,922)	55,151,527

* Direct premiums written and reinsurance assumed.

The decrease in surplus between 2005 and 2004 is primarily due to the effects of stockholders dividends of \$72,000,000 paid to its parent in 2005. The large decreases in net admitted assets, gross premiums written, net premiums earned and net income between 2005 and 2004 were due to the effects of the loss portfolio and quota share reinsurance contracts entered into with affiliates National Indemnity Company and Columbia Insurance Company as described under the caption “Reinsurance”.

REINSURANCE

Assumed Business

The Company has assumed only a small amount of business in 2005 from several non-affiliated reinsurers, all of which are related to run-off contracts.

Ceded Business

Effective January 1, 2005, with the permission of their respective regulators, NRC and certain of its North American property and casualty affiliates entered into a loss portfolio contract and a quota share reinsurance contract with two other affiliates, National Indemnity Company and Columbia Insurance Company.

The loss portfolio contract provides a 50% reinsurance cover on losses paid under business written on or before December 31, 2004. The 50% reinsurance cover was shared between National Indemnity (40%) and Columbia Insurance Company (10%). The amount of net reserves ceded by the Company on January 1, 2005 was \$190.3 million, and consideration paid was equal to the amount of net reserves ceded.

The quota share contract provides a 50% reinsurance cover on net losses paid under business written on or after January 1, 2005. The 50% reinsurance cover was shared between National Indemnity (40%) and Columbia Insurance Company (10%).

Both contracts replaced a previous aggregate stop-loss reinsurance agreement with GRC. At December 31, 2005, the Company reported \$186.3 million of ceded outstanding losses and \$190.3 million of ceded earned premium on the loss portfolio contract, and no ceded premium or outstanding losses on the quota share contract.

INTERCOMPANY AGREEMENTS

The Company had the following intercompany agreements in effect as of December 31, 2005:

Expense and Tax Allocation Agreement

Effective October 3, 1996, the Company and its upstream parent, General Re Corporation (GRN), entered into an expense and tax allocation agreement.

Each of the parties can provide services for each other that include such expenses as; administration, underwriting services, personnel, investment, EDP, treaty services, medical and such other expenses and taxes of any kind, rent, employee benefits and directors fees. Fees charged could be based on time, number of employees, company assets, rent space or other agreed upon cost allocation methods.

The consolidated tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate return tax liabilities of all affiliates that are members of the consolidated group. Estimated payments are required to be made by the respective affiliates to GRN and if such member is in a tax loss position that member will establish an account receivable from GRN.

Joint Asset Agreement

Effective January 1, 1989 and last amended on October 10, 2005, a joint asset agreement was established between and among certain subsidiaries of GRN of which NRC became a

participant after it became a member of the holding company system. The companies joined together, creating a pool fund to which each participant contributes cash in excess of general working capital to improve the investment returns on the contributed funds. Each participant jointly owns a percentage of the assets in the pool, the investment income derived there from and such reinvestments as are made, in proportion to its contributed assets and jointly share the same proportion in the profits or losses, if any, of the pool fund. GRC is appointed as the manager of the pool fund and any participant, on notice to the manager, may cancel its participation and withdraw its contributions.

General Services Agreement

Effective September 1, 1998, the Company entered into a general services agreement whereby GRC provides, without limitation, such services as; administration, communications and public relations, actuarial, audit, executive, legal, personnel, comptroller, employee benefits and benefit plans, accounting, tax and other financial services.

Investment Management Agreement

Effective June 1, 2003, the Company entered into an investment management agreement with General Re-New England Asset Management, Inc., whereby the manager will make investment decisions for NRC in accordance with investment restrictions and guidelines as stated in the agreement. All investment transactions require prior approval from NRC except for transactions in the "short term pool" account.

Master Loan Agreement

Effective March 1, 1993 and last amended on August 17, 2004, a master loan agreement was established between and among GRN and certain of its subsidiaries that includes NRC to create an inter-company short term loan facility to reduce each participant's level of short term

investments while retaining sufficient liquidity to pay current obligations through affiliate borrowings as needed. GRC manages the short term loan facility and is authorized to make loans by affiliates to affiliates requesting such a loan. Loans bear interest from the date funds are advanced until the date repaid and the rate of interest shall be the average rate currently received by participants on their short term investments. Material loans require the lending affiliate's specific approval. Loans are repayable on demand, but are anticipated to be outstanding for six months or less. Borrowing affiliates may repay the loans at any time without penalty.

ACCOUNTS AND RECORDS

Information Systems Controls Evaluation

A high-level assessment of the internal control structure and process for NRC's accounting computer systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC and the Delaware Department of Insurance. The discussions and review did not reveal any material deficiencies in the internal control structure of the Company.

Accounting System

All necessary accounting records of the Company are maintained on electronic data processing equipment, which is also shared by GRN, and its subsidiaries. The general ledger is maintained on a statutory basis with additional accounts used to convert to the accrual basis suitable for General Accepted Accounting Principles. The Company's database was tested as part of Delaware examination procedures.

Independent Accountants

The Company's financial statements are audited each year by the firm of Deloitte & Touche ("D&T"), LLP, of New York, New York. D&T issued an unqualified opinion of the

audited statutory financial statements for all years under the examination review. The workpapers prepared by D&T in connection with the annual audit were reviewed and relied upon to the extent possible.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2005, as determined by this examination, along with supporting exhibits as detailed below:

Assets, December 31, 2005

Liabilities, Surplus and Other Funds, December 31, 2005

Statement of Income, December 31, 2005

Assets
As of December 31, 2005

	Ledger	Non-Admitted	Net Admitted	<u>Notes</u>
	<u>Assets</u>	<u>Assets</u>	<u>Assets</u>	
Bonds	\$ 314,094,126		\$ 314,094,126	1
Stocks:				
Preferred	69,308,569		69,308,569	
Common	21,930,136		21,930,136	
Cash, cash equivalents, and short-term investments	402,365,946		402,365,946	2
Investment income due and accrued	4,923,164		4,923,164	
Premiums in course of collections	5,973,702	\$ 118,170	5,855,532	
Accrued retrospective premiums	33,747,944		33,747,944	
Amounts recoverable from reinsurance	7,901,038		7,901,038	
Funds held by or deposited with reinsured co.'s	1,998,584		1,998,584	
Net deferred tax asset	2,182,882	1,029,313	1,153,569	
Receivable from parent, subsidiaries and affiliates	5,270,518		5,270,518	
	<hr/>	<hr/>	<hr/>	
Total Assets	\$ 869,696,609	\$ 1,147,483	\$ 868,549,126	
	<hr/>	<hr/>	<hr/>	

**Liabilities, Surplus and Other Funds
As of December 31, 2005**

		<u>Notes</u>
Losses	\$ 165,825,405	3
Reinsurance payable on paid losses and LAE	5,372,358	
Loss adjustment expenses	20,515,503	3
Contingent commissions	2,727,147	
Current federal and foreign income taxes	(9,678,201)	
Unearned premiums	10,419,331	
Ceded reinsurance premiums payable	4,000	
Provision for reinsurance	4,825,644	
Payable to parent, subsidiaries and affiliates	933,520	
Loss and LAE adj. expenses payable on direct business	(1,041,916)	
Unclaimed checks	17,455	
Total Liabilities	<u>\$ 199,920,246</u>	
Common capital stock	\$ 5,000,000	
Gross paid-in and contributed surplus	191,666,510	
Unassigned funds (surplus)	471,962,370	
Surplus as regards policyholders	<u>\$ 668,628,880</u>	
Totals	<u><u>\$ 868,549,126</u></u>	

**Statement of Income
As of December 31, 2005**

UNDERWRITING INCOME

Premiums earned	\$ (195,068,906)
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DEDUCTIONS

Losses incurred	\$ (141,791,974)
Loss expenses incurred	(16,528,984)
Other underwriting expenses incurred	(1,570,646)
Total underwriting deductions	\$ (159,891,604)
Net underwriting gain or (loss)	\$ (35,177,302)

INVESTMENT INCOME

Net investment income earned	\$ 43,127,686
Net realized capital gains or (losses)	788,113
Net investment gain or (loss)	\$ 43,915,799

OTHER INCOME

Net gain from agents' or premium balance charged off	\$ 144,980
Voided checks	81
Total other income	\$ 145,061
Net income before dividends to policyholders and before federal income taxes	\$ 8,883,558
Dividends to policyholders	0
Net income after dividends to policyholder but before federal income taxes	\$ 8,883,558
Federal and foreign income taxes incurred	(630,843)
Net income	\$ 9,514,401

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2004	\$ 722,092,484
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GAINS AND (LOSSES) IN SURPLUS

Net income	\$ 9,514,401
Change in net unrealized capital gains	623,400
Change in net unrealized foreign exchange capital gain	(1,591)
Change in net deferred income tax	2,069,492
Change in non-admitted assets	(869,590)
Change in provision for reinsurance	7,200,284
Dividends to stockholders	(72,000,000)
Change in surplus as regards policyholders for the year	\$ (53,463,604)
Surplus as regards policyholder, December 31, 2005	\$ 668,628,880

EXAMINATION ADJUSTMENTS

No financial changes were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

<u>Note 1 - Bonds</u>	<u>\$ 314,094,126</u>
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Bonds, comprising of 36.16 % of total admitted assets, were determined to be the same amount as reported by the Company in its Annual Statement. Of the reported bonds, 99.8% were rated Class 2 or higher by the NAIC Securities Valuations Office.

<u>Note 2 – Cash</u>	<u>\$ 402,365,946</u>
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Cash, cash equivalents and short-term investments, comprising of 46.33 % of total admitted assets were determined to be the same amount as reported by the Company in its Annual Statement.

Note 3 – Losses	\$ 165,825,405
<u>Loss Adjustment Expenses</u>	<u>\$ 20,515,503</u>
	\$ 186,340,908

INS Consultants, Inc. (*INS*) was retained by the Delaware Insurance Department to conduct an actuarial review of the Company's reserve methodologies and adequacy. Based on the review, the Company's reported total loss and loss adjustment expense reserves of \$186,340,908 as of December 31, 2005 were properly stated.

INS's analysis is net of reinsurance and does not address the collectibility of reinsurance recoverables.

The underlying loss data was tested through a review of open and paid claims. The aggregated actuarial data provided by the Company was verified and balanced to Schedule P of the filed Annual Statement.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

There were no recommendations made in the prior exam report.

SUMMARY OF RECOMMENDATIONS

1. It is recommended that the Company reply to the Annual Statement General Interrogatories in an accurate manner concerning the maintenance of recorded minutes and a written account or report of the discussions that is reflected in the minutes of the committee members' meetings should be retained. (See Management and Control: Committees, page 6)
2. It is recommended that the Company comply with 18 Del.C. §4919 regarding the notification and changes in officers and directors. (See Management and Control: Directors and Officers, page 7)
3. It is recommended that the Company consistently comply with its Policy Statement on Conflict of Interest procedures by verifying that its officers and directors review and execute the questionnaires on an annual basis. (See Management and Control: Conflict of Interest Policy, page 7)
4. It is recommended that the Company should exercise care by assuring that when its Board of Directors is required to approve or otherwise provides its approval of an agreement, such approval is given in a timely manner. (See Management and Control: Investment Management Agreement, page 8)

CONCLUSION

The following schedule shows the results of this and the prior examination with changes between the three year periods:

Description	<u>December 31 2002,</u>	<u>December 31, 2005</u>	<u>Difference</u>
Assets	\$1,134,824,109	\$ 868,549,126	(\$266,274,983)
Liabilities	\$ 479,068,046	\$ 199,920,246	(\$279,147,800)
Capital and Surplus	\$ 655,756,063	\$ 668,628,880	\$ 12,872,817

The assistance of Delaware's consulting firms, INS Consultants, Inc. and INS Services, Inc. is acknowledged.

Respectfully submitted,



Douglas E. Bey, CFE
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC